

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
TWENTYNINE PALMS PUBLIC
CEMETERY DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
May 13, 2008

**County of San Bernardino
Twentynine Palms Public Cemetery District**

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

May 13, 2008

Sandra J. Gray, Chairwoman
Board of Trustees
Twentynine Palms Public Cemetery District
5350 Encelia Avenue
Twentynine Palms, CA 92277

**SUBJECT: AUDIT OF TWENTYNINE PALMS PUBLIC CEMETERY DISTRICT FOR
THE FISCAL YEAR ENDED JUNE 30, 2007**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Twentynine Palms Public Cemetery District for the fiscal year ended June 30, 2007.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the Twentynine Palms Public Cemetery District (District), an independent special district of the County of San Bernardino, California, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 25 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA
Chief Deputy Auditor

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**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Net Assets
June 30, 2007**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 4 & 5)	\$ 239,657
Investments (Note 3 & 5)	253,948
Interest receivable	2,800
Taxes receivable	5,485
Accounts receivable	1,056
Prepaid expenditures	5,400
Total current assets	<u>508,346</u>
Noncurrent Assets:	
Capital assets: (Note 7)	
Land	23,797
Structures and improvements	286,498
Equipment and vehicles	76,049
Less accumulated depreciation	<u>(290,952)</u>
Total noncurrent assets	<u>95,392</u>
Total assets	<u><u>\$ 603,738</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 3,167
Salaries and benefits payable	5,199
Total current liabilities	<u>8,366</u>
Noncurrent liabilities:	
Compensated absences	<u>3,420</u>
Total noncurrent liabilities	<u>3,420</u>
Total liabilities	<u><u>11,786</u></u>
NET ASSETS	
Invested in capital assets	95,392
Restricted (Note 5 & 6)	154,423
Unrestricted (Note 6)	<u>342,137</u>
Total net assets	<u>591,952</u>
Total liabilities and net assets	<u><u>\$ 603,738</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Activities
For the Fiscal Year Ended June 30, 2007**

	Governmental Activities
PROGRAM EXPENSES:	
Salaries and benefits	\$ 129,145
Services and supplies	37,691
Utilities	11,539
Professional services	10,308
Depreciation	9,332
Total program expenses	<u>198,015</u>
PROGRAM REVENUES:	
Charges for services	<u>28,952</u>
Net program revenues (expenses)	<u>(169,063)</u>
GENERAL REVENUES (EXPENSES):	
Property taxes	128,195
Other taxes	6,981
State aid - homeowners exemption	1,581
Interest and investment income	23,195
Transfers (Note 8)	18,666
Total nonoperating revenues (expenses)	<u>178,618</u>
Change in net assets	9,555
Net assets - beginning	<u>582,397</u>
Net assets - ending	<u><u>\$ 591,952</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Balance Sheet
June 30, 2007**

	General (MAV)	Permanent Fund - Endowment Care (MBA)	Total Government Funds
ASSETS			
Cash and cash equivalents (Note 4 & 5)	\$ 163,750	\$ 75,907	\$ 239,657
Investments (Note 3 & 5)	-	253,948	253,948
Interest receivable	1,956	844	2,800
Taxes receivable	5,485	-	5,485
Accounts receivable	1,056	-	1,056
Prepaid expenditures	5,400	-	5,400
Total assets	<u>\$ 177,647</u>	<u>\$ 330,699</u>	<u>\$ 508,346</u>
LIABILITIES			
Accounts payable	\$ 3,167	\$ -	\$ 3,167
Salaries and benefits payable	5,199	-	5,199
Total liabilities	<u>8,366</u>	<u>-</u>	<u>8,366</u>
FUND BALANCE			
Reserved (Note 5 & 6)			
Endowment principal - nonexpendable	-	154,423	154,423
Unreserved (Note 6)	169,281	176,276	345,557
Total fund balance	<u>169,281</u>	<u>330,699</u>	<u>499,980</u>
Total liabilities and fund balance	<u>\$ 177,647</u>	<u>\$ 330,699</u>	

Amounts reported for governmental activities in the government-wide balance sheet are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	95,392
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Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(3,420)
Net assets of governmental funds	<u>\$ 591,952</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2007**

	General (MAV)	Permanent Fund Endowment Care (MBA)	Total Government Funds
REVENUES			
Charges for services	\$ 24,892	\$ 4,060	\$ 28,952
Property taxes	128,195	-	128,195
Other taxes	6,981	-	6,981
State Aide - Homeowners exemption	1,581	-	1,581
Interest and investment income	7,268	15,927	23,195
Total revenues	<u>168,917</u>	<u>19,987</u>	<u>188,904</u>
EXPENDITURES			
Salaries and benefits	129,663	-	129,663
Services and supplies	37,691	-	37,691
Utilities	11,539	-	11,539
Professional services	10,308	-	10,308
Total expenditures	<u>189,201</u>	<u>-</u>	<u>189,201</u>
Excess of revenues over (under) expenditures	<u>(20,284)</u>	<u>19,987</u>	<u>(297)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (Note 8)	18,666	-	18,666
Total other financing sources and uses	<u>18,666</u>	<u>-</u>	<u>18,666</u>
Net change in fund balances	(1,618)	19,987	18,369
Fund balances - beginning	170,899	310,712	481,611
Fund balances - ending	<u>\$ 169,281</u>	<u>\$ 330,699</u>	<u>\$ 499,980</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2007**

Net change in fund balances - Total Government Funds	\$	18,369
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Amounts reported for governmental activities in the statement of activities are different because:

Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This activity is reconciled as follows:

Depreciation expense		(9,332)
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Compensated absences are not due and payable in the current period and, therefore, are not reported as expenditures in governmental funds. This amount represents the net decrease in the compensated absences liability.

518

Change in net assets of governmental activities

	\$	9,555
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The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private-Purpose Trust Fund
	Pre-Need Burial (MAY)
ASSETS	
Cash and investments (Note 4 & 5)	\$ 252,994
Interest receivable	2,812
Total assets	<u>\$ 255,806</u>
NET ASSETS	
Held in trust	\$ 255,806
Total net assets	<u>\$ 255,806</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Fiscal Ended June 30, 2007**

	<u>Private- Purpose Trust Fund Pre-Need Burial (MAY)</u>
ADDITIONS	
Contributions	\$ 23,691
Investment earnings - interest	11,141
Total additions	<u>34,832</u>
DEDUCTIONS	
Transfers out (Note 8)	<u>18,666</u>
Total deductions	<u>18,666</u>
Change in net assets	16,166
Net assets - beginning	239,640
Net assets - ending	<u><u>\$ 255,806</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Twentynine Palms Public Cemetery District (District), created in 1934, is an independent special district located within the County of San Bernardino. The District was established to provide cemetery service to the community of Twentynine Palms, California.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity among governmental activities has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from any *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *permanent fund* labeled "Endowment Care" provides resources that are legally restricted to the extent that only earnings and no principal (corpus) may be used for purposes that support the reporting government's programs.

Fiduciary funds are used to account for assets held by the District as an agent or trustee for individuals, private organizations, other governments and/or other funds. The Pre-Need Burial Fund is a private-purpose trust fund which transfers funds from its earnings to the General fund to finance burial expenditures. Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements. The government uses the consumption method to account for prepaid items.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the San Bernardino County Treasurer to increase interest earnings through investment activities as well as a small amount invested with an approved broker/dealer.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium-term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based on the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2007.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties after December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties after August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures), \$3,000 (for equipment and vehicles) and have an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Structures & improvements	15 – 45
Equipment and vehicles	6 – 20

Employee compensated absences

Accumulated vacation, holiday benefits and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2007 was as follows:

Beginning Balance	Additions	Deletion	Ending Balance
<u>\$ 3,938</u>	<u>\$ -</u>	<u>\$ 518</u>	<u>\$ 3,420</u>

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds must be approved by the Board. Any deficiency of budgeted revenues and other financing resources over expenditures and other financing uses is financed by beginning available fund balances.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 3: OUTSIDE INVESTMENTS

A portion of the Endowment Care Fund is invested with an approved broker/dealer, per the District's Investment Policy.

As of June 30, 2007, the fair value of the Endowment Care Fund was \$253,948, consisting of the following:

Cash and Money Fund	\$ 566
U. S. Treasuries	94,139
Federal Agencies	159,243
Total investments	<u>\$ 253,948</u>

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 3: OUTSIDE INVESTMENTS – Continued

Investment Credit Risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB 40 requires the disclosure of credit quality ratings for investments.

California Law places limitations on the purchase of investments in regards to the credit ratings issued by the top two of three nationally recognized statistical rating organizations and limits are also placed on the maximum percentage investment by sector and by individual issuer. Investments issued by or explicitly guaranteed by the U.S. Government or issued by or fully guaranteed as to principal and interest by federal agencies are not considered to have credit risk or individual issuer limitations. As of June 30, 2007, all investments are within the District's policy limits.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Quality Ratings</u>	<u>Maximum Allowed % of Portfolio</u>	<u>Individual Issuer Limitations</u>
U.S. Treasury Securities	\$ 94,139	N/A	100%	None
Federal Agencies	\$ 159,243	N/A	100%	None
Total District's Investments	\$ 253,382			
Cash in Bank:				
Money Market Interest Bearing Deposits	\$ 566			
Total Investments	\$ 253,948			

Concentration of Credit Risk increases the risk of loss as more investments are acquired from one issuer, resulting in a lack of diversification. GASB 40 requires disclosures of investments by amount and issuer that represent five percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government. As of June 30, 2007, the following issuers represented more than five percent of the District's investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FNMA	\$ 64,314	25.33%
FICO	\$ 43,251	17.03%
FHLB	\$ 39,773	15.66%

Interest Rate Risk exists when there is a possibility that changes in interest rates could have an adverse effect on an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 3: OUTSIDE INVESTMENTS – *Continued*

GASB 40 requires that *interest rate risk* be disclosed using a minimum of one of the five approved methods which are: *segmented time distribution, specific identification, weighted average maturity, duration and simulated model.*

California Law places limitations on the maximum maturity of investments to be purchased by sector, unless specific conditions are met per the District's Investment Policy. California Law states that the maximum maturity limit of any investment is five years. As of June 30, 2007, the district is not in compliance with the policy.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u> <u>(& cash)</u>	<u>1 – 5</u>	<u>5 – 10</u>	<u>More</u> <u>Than 10</u>
Cash & Money Fund	\$ 566	\$ 566	\$ -	\$ -	\$ -
U. S. Treasuries	94,139	27,152	66,987	-	-
Federal Agencies	159,243	-	132,802	26,441	-
Total	\$ 253,948	\$ 27,718	\$ 199,789	\$ 26,441	\$ -

Custodial Credit Risk for Investments exists if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty (broker-dealer) or the counterparty's trust department or agent, but not in the government's name. Since the outside investments at June 30, 2007 are recorded in the District's name, *Custodial Credit Risk for Investments* does not exist.

NOTE 4: POOLED CASH AND INVESTMENTS

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

State law now requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$3.94 billion at June 30, 2007.

As of June 30, 2007, the fair value of the County Pool was \$3.96 billion. Approximately 9% of the County pool is attributable to the County General Fund, with the remainder of

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4: POOLED CASH AND INVESTMENTS – *Continued*

the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2007, \$27.3 million of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in Investment Trust Fund.

Investments authorized by debt agreement

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

Investment credit risk

Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer (see schedule on page 18). As of June 30, 2007, all investments held by the County Pool were within policy limits.

Concentration of credit risk

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a concentration of credit risk.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4: POOLED CASH AND INVESTMENTS – *Continued*

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five-percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2007, the following issuers represented more than five-percent of the County Pool balance (amounts in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FHLB	\$ 886,893	22.52%
FNMA	\$ 612,422	15.55%
FFCB	\$ 393,736	10.00%
FHLMC	\$ 347,172	8.81%

Interest rate risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that interest rate risk be disclosed using a minimum of one of five approved methods which are: segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall effective duration of 1.5 years or less. Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule, amounts in thousands). As of June 30, 2007, all investments held by the County Pool were within policy limits.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4: POOLED CASH AND INVESTMENTS – *Continued*

Security Type	Fair Value	Maturity Range (Days)	Maturity Limits	Average Maturity	Effective Duration
Certificates of Deposit	\$ 749,492	6 - 347	365 days	164	0.43
Commercial Paper	\$ 696,004	2 - 101	270 days	19	0.05
Corporate Notes	\$ 9,392	490	18 months	490	1.26
Federal Agencies	\$ 2,240,223	11 - 1059	5 years	472	1.13
Money Market Funds	\$ 25,000	1	Imm. Liq.	1	0.003
Repurchase Agreements	\$ 100,001	2	180 days	2	0.005
U.S. Treasuries	\$ 144,384	46 - 777	5 years	231	0.61
Total Securities	<u>\$ 3,964,496</u>			<u>311</u>	<u>0.75</u>

Custodial credit risk

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, the carrying amount of the County's deposits was \$58.1 million and the corresponding bank balance was \$69.6 million. The difference of \$11.5 million was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$200,000 was insured by the FDIC depository insurance and \$69.4 million was uncollateralized and not insured by FDIC depository insurance.

Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

In order to limit Custodial Credit Risk for Investments, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a PSA Master

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4: POOLED CASH AND INVESTMENTS – Continued

Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

A summary of the investments held by the County Treasurer is as follows (amounts in thousands):

Investment Type	Cost	Fair Value	S&P Rating	Moody's Rating	Fitch Rating	Maximum Allowed % of Portfolio	Individual Issuer Limitations	% of Pool 06/30/07
U.S. Treasury Securities	\$ 144,535	\$ 144,384	AAA	Aaa	AAA	100%	None	3.00%
U.S. Government Agencies	2,246,987	2,240,223	AAA	Aaa	AAA	75%	None	56.90%
Negotiable Certificates of Deposit	750,144	749,492	A1+	P1	F1+	30%	\$100MM	19.00%
Commercial Paper	692,120	696,004	A1+	P1	F1+	40%	10\$	17.00%
Corporate Notes	9,478	9,392	AA	Aa1	AA+	10%	\$50MM	0.30%
Money Market Mutual Funds	25,000	25,000	AAA	Aaa	AAA	15%	10%	0.50%
Repurchase Agreements	100,000	100,001	A1	P1	F1+	40%	None	2.50%
Total Treasurer's Pooled Investments	\$ 3,968,264	\$ 3,964,496						
Investments Controlled by Fiscal Agents:								
Guaranteed Investment Contracts	35,917	35,917						
U.S. Treasury Securities	84,372	84,372						
U.S. Agency Discount Notes	6,603	6,603						
Total Investments Controlled by Fiscal Agents	\$ 126,892	\$ 126,892						
Total Investments	\$ 4,095,156	\$ 4,091,388						
Cash in Banks:								
Non-Interest Bearing Deposits		\$ 58,066						
Total Cash and Investments		\$ 4,149,454						

As of June 30, 2007, Cash and Investments for the District are classified in the accompanying financial statements as follows:

	Total Governmental Activities	Total Fiduciary Funds	Total
Cash and Investments	\$ 212,046	\$ 252,994	\$ 465,040
Restricted Cash and Investments	27,611	-	27,611
Total Cash and Investments	\$ 239,657	\$ 252,994	\$ 492,651

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 4: POOLED CASH AND INVESTMENTS-Continued

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2007 (amounts in thousands):

Statement of Net Assets	
Equity of internal pool participants	\$ 1,698,508
Equity of external pool participants:	
Voluntary	27,346
Involuntary	2,238,642
Total Net Assets held for pool participants	<u>\$ 3,964,496</u>

Statement of Changes in Net Assets	
Net Assets at July 1, 2006	\$ 3,335,214
Net change in investments by pool participants	629,282
Net Assets at June 30, 2007	<u>\$ 3,964,496</u>

NOTE 5: RESTRICTED CASH AND INVESTMENTS

Cash and cash equivalents and investments that are restricted by legal or contractual requirements at June 30, 2007 are comprised of the following:

Permanent fund – Endowment care

Restricted cash and cash equivalents and investments of \$154,423 represent principal (corpus) that is legally restricted for perpetual maintenance of the District.

NOTE 6: NET ASSETS

The government-wide fund financial statements utilize a net assets presentation. Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contribution of capital. Net assets are classified in the following three components.

- *Invested in Capital Assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 6: NET ASSETS - Continued

- *Unrestricted* – This component of net asset consist of net assets of the District that are not restricted for any project or other purpose.

The District's net assets for the year ended June 30, 2007 are as follows:

	<u>Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt:	
Net land, land improvements, infrastructure, construction in progress, structures and improvements, equipment and vehicles.	\$ 95,392
Restricted for:	
Principal (corpus) of the "Endowment Care Fund"	154,423
Unrestricted	<u>342,137</u>
Total Net Assets	<u><u>\$ 591,952</u></u>

NOTE 7: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the governmental fund balance sheet. However, the government-wide statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2007 are as follows:

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2007</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 23,797	\$ -	\$ -	\$ 23,797
Total capital assets not being depreciated	<u>23,797</u>	<u>-</u>	<u>-</u>	<u>23,797</u>
Capital assets being depreciated:				
Structures and improvements	286,498	-	-	286,498
Vehicles	69,496	-	-	69,496
Equipment	6,553	-	-	6,553
Total capital assets being depreciated	<u>362,547</u>	<u>-</u>	<u>-</u>	<u>362,547</u>
Less: accumulated depreciation for:				
Structures and improvements	(232,515)	(5,040)	-	(237,555)
Vehicles	(42,552)	(4,292)	-	(46,844)
Equipment	(6,553)	-	-	(6,553)
Total accumulated depreciation	<u>(281,620)</u>	<u>(9,332)</u>	<u>-</u>	<u>(290,952)</u>
Total capital assets being depreciated, net	<u>80,927</u>	<u>(9,332)</u>	<u>-</u>	<u>71,595</u>
Total net capital assets	<u><u>\$ 104,724</u></u>	<u><u>\$ (9,332)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 95,392</u></u>

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 8: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and any capital project funds. At June 30, 2007, the District made the following interfund transfers:

<u>Fund</u>	<u>Purpose</u>	<u>Amount</u>
MAV	From Preneed Fund to reimburse cost of funeral expenses	\$ 18,666
MAY	To General Fund to pay for funeral expenses	(18,666)
		<u>\$ -</u>

NOTE 9: INSURANCE

The District is insured with American Alternative Insurance Corporation for general liability, property damage, employee dishonesty, and automobile liability. Preferred Employers Insurance Company provides the District with worker's compensation insurance for all employees in extra or full time positions. Unemployment insurance is provided through the State of California's Employment Development Department.

The schedule of insurance coverage as of June 30, 2007 is as follows:

<u>Type of Coverage</u>	<u>Limit of Insurance</u>	<u>Description</u>
Bodily injury and property damage	\$ 1,000,000	Per occurrence
	\$ 3,000,000	Bodily injury and property damage aggregate
Personal injury and advertising injury	\$ 1,000,000	Per person or organization
	\$ 3,000,000	Personal injury and advertising injury aggregate
Employment-related practices injury	\$ 1,000,000	Per claim
	\$ 3,000,000	Employment-related practices injury aggregate, prior acts are not covered
Professional liability	\$ 1,000,000	Per claim
	\$ 3,000,000	Professional liability aggregate, prior acts are not covered
Wrongful acts	\$ 1,000,000	Per claim
	\$ 3,000,000	Wrongful acts aggregate, prior acts are not covered
Employee Benefits Liability	\$ 1,000,000	Per claim
	\$ 3,000,000	Employment practices aggregate, prior acts are not covered
Damage to Premises Rented	\$ 1,000,000	Any one premises
Medical expense	\$ 10,000	Per accident
Employee dishonesty	\$ 250,000	Per occurrence
Forgery or alteration	\$ 250,000	Per occurrence
Theft, disappearance, & destruction		
Inside	\$ 250,000	Per occurrence
Outside	\$ 250,000	Per occurrence
Computer fraud	\$ 100,000	Per occurrence
<u>Automobile Coverage</u>		
Liability	\$ 1,000,000	Per accident
Auto medical payments	\$ 5,000	Per accident
Uninsured motorist	\$ 1,000,000	Per accident
Underinsured Motorists	\$ 1,000,000	Per accident
Comprehensive/Collision		Actual cash value, cost of repair or \$50,000 whichever is less, minus \$100/500 deductible respectively.
<u>Worker's Compensation Coverage</u>		
Bodily injury by accident	\$ 1,000,000	Each accident
Bodily injury by disease	\$ 1,000,000	Policy limit
Bodily injury by disease	\$ 1,000,000	Each employee

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 10: RETIREMENT

The Presidential Life Insurance Company carries the District's IRA retirement plan. Employees are eligible to participate in the plan at the end of the employee's probationary period. The District advances annual contributions to the IRA of \$2,000 per employee. The plan is 100% immediately vested. The employees reimburse the District for their share at 4% of their gross pay to the maximum allowable, repaid in 24 equal payroll deductions each year. The employees sign a Reimbursement Agreement which is kept in the District's Retirement file. Accordingly, if an employee terminates employment before reimbursing the District for their annual contribution, the balance due will be payable at that time.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Required Supplementary Information
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2007**

General Fund (MAV)	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Budgetary Fund Balance, July 1, 2006	\$ 170,899	\$ 170,899	\$ 170,899	-
Resources (inflows):				
Property taxes	98,900	98,900	128,195	29,295
Other taxes	5,000	5,000	6,981	1,981
State aid - homeowners exemption	-	-	1,581	1,581
Interest	3,200	3,200	7,268	4,068
Transfers in	9,000	9,000	18,666	9,666
Charges for services	24,500	24,500	24,892	392
Amounts available for appropriations	311,499	311,499	358,482	46,983
Charges to appropriations (outflows):				
Salaries and benefits	135,300	135,300	129,663	5,637
Services and supplies	41,975	41,975	37,691	4,284
Utilities	22,000	22,000	11,539	10,461
Professional Services	10,300	10,300	10,308	(8)
Capital outlay	43,975	43,975	-	43,975
General Reserve	5,000	5,000	-	5,000
Appropriation and Contingencies	20,000	20,000	-	20,000
Total charges to appropriations	278,550	278,550	189,201	89,349
Budgetary Fund Balance, June 30, 2007	\$ 32,949	\$ 32,949	\$ 169,281	\$ (42,366)